

CITY OF LONE TREE, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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Officials

Name	Title	Term Expires
Officials		
(Before January, 2016)		
Rick Ogren	Mayor	December, 2015
Carl Brown	Council Member	December, 2017
Kory Kopf	Council Member	December, 2017
Sandra Flake	Council Member	December, 2015
Mitch Swinton	Council Member	November, 2015
Kenneth Barton	Council Member	December, 2017
Merry Thomae	City Clerk/Treasurer	Indefinite
(Beginning January, 2016)		
Sandra Flake	Mayor	December, 2017
Carl Brown	Council Member	December, 2017
Kory Kopf	Council Member	December, 2017
Ruby Dickey	Council Member	December, 2019
Mitch Swinton	Council Member	November, 2017
Kenneth Barton	Council Member	December, 2017
Merry Thomae	City Clerk/Treasurer	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures —

To the Honorable Mayor and
Members of the City Council
City of Lone Tree, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lone Tree for the period July 1, 2015 through June 30, 2016. The City of Lone Tree's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Lone Tree, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Lone Tree, additional matters might have come to our attention that would have been reported to you.

To the Honorable Mayor and
Members of the City Council
City of Lone Tree, Iowa
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This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lone Tree and other parties to whom the City of Lone Tree may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Traer, Iowa
October 12, 2016

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

(A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts - opening mail, collecting, depositing, reconciling and posting.
- (5) Utilities - billing, collecting, depositing, posting and maintaining detailed accounts receivable records.
- (6) Debt - recordkeeping, compliance and debt payment processing.
- (7) Disbursements - purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (8) Payroll - recordkeeping, preparing, signing and distributing.
- (9) Computer system - performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting - Preparing and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review. Additionally, a second individual should review and countersign checks prepared by the City Clerk.

(B) **Cash and Investments** - The following were identified:

- (1) Certificate of deposit balances and interest earned are not included in the fund balances on the monthly Clerk's report.
- (2) The bank accounts are reconciled by the same person who has custody and control of the bank accounts, and there is no independent review of the bank statement reconciliations once they are completed.
- (3) Transfers of funds between accounts are not properly listed on the monthly Clerk's report.
- (4) Petty cash balances are not included in the general ledger or reported as part of the Annual Financial Report (AFR).
- (5) The City does have a listing of outstanding checks which supports the total on the monthly bank reconciliation. However, the listing does not include the date the check was written, making it difficult to determine how old an outstanding check is.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

Recommendation - The monthly Clerk's report should include all cash and investment accounts of the City whether in a bank or cash on hand. The Clerk's report should be in a format that conforms to the Code of Iowa including reporting transfers among funds within the general ledger. A member of the City Council should review the bank reconciliation and bank statements each month to determine that the accounts reconcile and the items clearing the bank are properly approved transactions. Lastly, the outstanding check listing should include the date the check was written which will help the City ensure compliance with Iowa escheat laws.

- (C) **Transfers** - Transfers between funds within the general ledger were approved by the City Council, but we were unable to determine if they were recorded to the correct fund because they are not properly recorded in the general ledger.

Recommendation - All transfers should either be approved as part of the budget process or if they are an unbudgeted transfer, specifically approved by the City Council prior to the transfer taking place. All transfers should be recorded within the individual funds of the general ledger.

- (D) **Delinquent Utility Accounts** - A listing of delinquent utility customer accounts is not maintained. During our testing of the utility bills of certain City employees and officials, we found that the Mayor's account had a history of repeated delinquency. The City did not follow its normal shut-off notice or collection procedures for this account.

Recommendation - A listing of delinquent utility accounts should be maintained and reviewed by the City Council each month. Procedures should be established requiring appropriate collection efforts for all accounts in order to return the delinquency to a current payment status.

- (E) **Questionable Disbursements** - The City pays for two cell phones for use by Public Works employees because they are on call 24 hours a day. The employees use the cell phones for personal use as well as for City business.

Recommendation - City property provided to employees should not be used for personal reasons. Employees should use their own cell phones for personal calls. Alternatively, the employees could use their personal phones 100% of the time and the City could reimburse them for the portion of the bill that was for City business.

- (F) **Payroll** - The City Council approved raises for all City employees as a percentage increase rather than approving the hourly or salary rate for each employee. Additionally, although timecards are maintained for all employees, there was no indication that timecards for employees at the Senior Dining Center had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

Recommendation - The City Council should approve the authorized rate of pay for each employee as an hourly or salary rate, rather than as a percentage increase. When wages are increased, the wage rate should be documented in the City Council minutes or in a resolution with a copy of the documentation placed in the employees' personnel file. Additionally, timecards for all employees should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

- (G) **AFR** - The AFR required to be filed with the State of Iowa for the fiscal year ended June 30, 2016 did not agree with the City's general ledger. Total revenue in the general ledger were \$300 less than the total reported on the AFR.

Recommendation - The AFR should be reconciled to the City's general ledger before it is filed.

- (H) **Local Option Sales Tax (LOST)** - The LOST receipts were recorded in the General Fund.

Recommendation - These funds should be recorded to a special revenue fund and then recorded as transfers when the cash is transferred out to another fund to be spent for the allowed purpose.

- (I) **Accounting Policies and Procedures Manual** - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same or similar situation arises.

- (J) **Internal Revenue Code Section 148** - During our testing of debt compliance, we noted one of the City's five bond issues included written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements for debt issues under Section 148 of the Internal Revenue Code.

Recommendation - The City should establish written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code for all debt issues.

- (K) **Tax Increment Financing (TIF)** - We noted the following:

- (1) TIF receipts and disbursements were recorded in the General Fund instead of a special revenue fund. Therefore, we were unable to determine if the TIF receipts were expended for allowable purposes.
- (2) We reviewed the TIF Indebtedness Certification Report and noted that it appears the City has certified more debt than is eligible for certification. The current year certification included the principal and interest due in the next year which appears to have already been certified as part of the original debt obligation certified in a prior year. The amount of debt certified is in excess of the existing debt outstanding as of June 30, 2016.
- (3) We were unable to determine if the debt listed on the annual urban renewal report is correct. It appears some debt is listed more than once.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

Recommendation - The City should account for TIF receipts and disbursements in a special revenue fund and not in the General Fund. We also recommend that the City consult with its bond counsel to determine whether corrections are needed for the amounts of debt certified in the TIF reports.

- (L) **Chart of Accounts** - While the City is using fund accounting and properly classifies disbursements according to function, the City has not fully implemented the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the CFC on September 25, 2002, including using specific general ledger accounts with individual account numbers.

Recommendation - To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (M) **Prenumbered Receipts** - Prenumbered receipts were not issued for all cash collections and an initial listing of collections was not prepared.

Recommendation - Prenumbered receipts should be issued for all cash collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.